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Testimony of Moe Biller

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on

**Legislation to Provide a Supplemental Retirement Plan
for Postal and Federal Employees
Hired on or after January 1, 1984**

before the

Committee on the Post Office and Civil Service

U. S. House of Representatives

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American Postal Workers Union, AFL-CIO

Mr. Chairman, Madam Chair, and members of the Committee, it is a pleasure to appear before you again to convey the views of the American Postal Workers Union and represent APWU's 330,000 members on the subject of today's hearing.

The American Postal Workers Union supports action in this Congress on a supplemental plan for new hires. The number of postal and federal workers hired on or after January 1, 1984 when they were required to be covered under Social Security continues to grow. Their uncertainty and concern has also been growing.

APWU members enrolled in the current Civil Service Retirement System are also very concerned. APWU members realize that, to protect the future, we must protect the benefits of both the supplemental plan and the current plan. We stand together as a union in our support for a good, strong and decent supplemental retirement plan for new hires.

Some pension experts claim that the enactment of legislation to provide a retirement program for postal and federal workers that is supplemental to Social Security will be a model for private sector and State and local government pension programs. Some individuals also claim that some or all of the provisions in the supplemental plan will be good for enrollees in the current Civil Service Retirement plan. Regardless of whether these claims are true, it is extremely important that Congress do a good and careful job with this landmark legislation. Your task

- 2 -

is an awesome responsibility, and the APWU pledges its full support of your efforts. I must caution, however, that APWU cannot and will not accept a stingy, inadequate plan.

Senate Action

Mr. Chairman, the American Postal Workers Union strongly opposes the Senate supplemental retirement bill, S. 1527. We realize that a lot of hard work was done on the Senate side, but much of it came very late in the process. Furthermore, we were very disappointed by the procedures followed in the Senate committee as it marked up and reported this legislation. I want to take a few minutes at this hearing to comment on the Senate process and the bill it produced and, assuming the House sees the wisdom of adopting a decent retirement proposal, urge you to insist on your position in the House-Senate conference.

The Senate committee held hearings on S. 1527 in September and heard from a large number of witnesses. Almost all the witnesses called for major changes in the introduced bill. Immediately after the hearings, to their credit, Senators Stevens and Roth began seeking a compromise that might corral some support for their legislation from other members of the Committee. Unfortunately, given what little time there was left in the Session, this activity should have taken place much earlier. The product of their hard work suffered from the process. I strongly urge this Committee not to allow its product to become fractured by the process. As happened in the Senate,

- 3 -

the process of reassembly could be fatal to producing a reasonable and acceptable plan.

The basis for the Stevens/Roth/Eagleton/Gore compromise was to create two retirement plans and let employees choose the option preferred. One plan (Option A) is like the original Stevens-Roth bill, and the other (Option B) is supported by Senators Gore and Eagleton and a bipartisan group of other Senators. There was never one minute of hearings on this unprecedented approach to designing a retirement plan! To make matters worse, Committee members continued to juggle the provisions of the two options right up until the afternoon that markup was held. The markup lasted about one hour and ended with a roll-call vote on a bill that had literally not then been drafted. In fact, the confusion was so great that, during the markup, my staff was given two different lists of Option B's provisions.

The process that was followed ignored the representations from employee and retiree groups and received very little attention from the Senators involved. It should come as no surprise that this legislation is flawed. I hope that the House Post Office and Civil Service Committee will be able to bring some rationality back to this process, which, after all, will lead to a landmark public law that will influence policy in this area for some time to come.

Now I want to say a few words about what is wrong with the Senate bill. First, I do not believe that the options idea will

- 4 -

work. The plan calls for a new employee to make an irrevocable lifetime decision on a retirement plan within 60 days from date of hire. This expectation is unrealistic since most new hires are young people who are not familiar with retirement decisions and are in a poor position to evaluate their options. We also understand that providing later "open season" windows during an employee's career would be difficult to administer and would add further confusion to retirement decisions that are already difficult enough to understand under a unitary plan.

And what do these new hires have to choose from? The main attraction of Option A is a very generous thrift plan, which might be a good deal for higher-income employees. However, Congress may put tight limits on such plans in the tax reform legislation now being written. So Option A looks like the proverbial "pig in a poke".

Option B doesn't look too good either. Since both options are less adequate than the current system by about 12 percent, Option B's defined benefit plan leaves out many of the features that we think are crucial, such as the high-3 salary base, the full COLA for all retirees, and a benefit level that will permit an adequate retirement income for lower-paid workers who are unable to save substantial sums in the thrift plan.

Despite these shortcomings, the employee who chooses B would have 1.3 percent automatically deducted from his or her paycheck while those who choose A would not. This inequity is one we oppose--we think all employees should be contributing the same

- 5 -

for retirement--but its backers could defend it if the contribution to Option B bought a much better plan. That was their stated intention. However, all it really buys is a better benefit for those who retire at age 55 and a better COLA while retired prior to age 67. How many new hires are going to find these two provisions attractive when they are at least 30 years from retirement, they are unsure of how long they will work in government service, and they see that Congress tries to tamper with such provisions every time a budget gets put together? Very few is my guess.

We feel that pre-62 retirement and full COLA protection are very important provisions, especially of concern when an employee sits down late in his or her career to assess his or her ability to continue in a industrial setting such as the Postal Service. However, if presented with the system proposed in S.1527, most new hires will choose short-run considerations over important benefits. Many would regret their decisions on reaching the latter years of their careers.

Mr. Chairman, there are many good provisions in S.1527. Unfortunately, because of the options structure and because many crucial provisions were left out, we must conclude that S.1527 is not a reasonable approach to a retirement program.

The Ford/Oakar Legislative Proposal

The Ford/Oakar proposal stands in marked contrast to the legislation which emerged from the Senate Governmental Affairs

- 6 -

Committee. We have analyzed the proposals carefully and have concluded that it is in keeping with the promises offered by Chairmen Ford and Rostenkowski and Speaker O'Neill when Social Security coverage was extended to new hires. We strongly support the Ford/Oakar bill as a proposal that would provide a retirement comparable to the current Civil Service Retirement System. We urge the Committee to do everything possible to shepherd this bill through the House intact, and when you reach conference with the Senate, insist that the House position prevail. To do anything less would be to diminish the value of the total compensation of future postal and federal workers and threaten the compensation of current workers.

Major Issues in Ford/Oakar

As I stated, the APWU strongly supports the Ford/Oakar bill. I will provide a further discussion of the actual draft legislation in an Appendix to my testimony which, with your permission, Mr. Chairman, I will submit for the hearing record at a later date. I would like to comment briefly today on several provisions that are very important to the APWU:

1. Cost of payroll and total federal compensation. The estimated cost of 21.9 percent of payroll for S.1527 implies that the value of that retirement plan to the employee will be over 12 percent less than that of the current system, which costs the employer 25.0 percent of payroll. We believe that the Ford/Oakar proposal was wise to increase the cost slightly to 25.5 percent

- 7 -

of payroll to reflect the fact that federal and postal employees are subsidizing Social Security for other workers because that system is of greater benefit on average to non-federal workers.

We strongly reject the notion that total federal compensation should be undermined by cutting retirement. As the Hay/Huggins study commissioned by this Committee clearly points out, total federal compensation lags way behind the private sector. I understand the Committee now has updated figures from Hay/Huggins that show that total federal compensation lags behind the private sector by 16 percent.

2. Level contributions. The APWU feels strongly that all employees should pay the same percentage for their basic retirement program and that contribution should go into the defined benefit portion of the retirement plan. Both the Ford/Oakar proposal and Option B in S.1527 take the correct approach of requiring the contribution to the supplemental plus the Social Security tax to equal 7.0 percent of pay.

3. Option for old employees. Under S.1527, employees now covered under Civil Service Retirement would be able to opt into the supplemental and Social Security. We are troubled by this proposal and feel that no election period should be allowed until a thorough analysis of the possible problems have been completed. Considerable testimony was presented last spring before this Committee on the problems which have been experienced when similar elections were allowed by new State retirement plans

- 8 -

for enrollees in a former plan. We believe that at least two years should pass before Congress considers passing legislation allowing such a selection.

4. High-3 salary base. The two most important factors in determining the basic retirement benefit are the salary base and the accrual rate. In 1969, Congress set the average of the high 3 years of salary as the base for calculating retirement. We cannot accept the regressive action of going back to a high 5 salary base without significant improvement in the accrual rate, which we believe should be higher than in the Senate bill.

5. Early retirement/pre-62 supplement. We strongly support the Ford/Oakar approach to provide a full defined benefit at age 55 with 30 years and age 60 with 20 years, and a supplement to make up for the absence of Social Security benefits until age 62. Those workers who begin postal or federal careers at early ages and loyally remain in their jobs should have the option of an adequate retirement after such a long career.

6. COLA. Cost-of-living allowance reductions as contained in S.1527 will work a serious financial hardship on retirees. A retirement benefit should not begin eroding the moment a worker retires. These periodic adjustments should not be left to the prevailing whims of the political process. COLA cuts of this type have been tried repeatedly in recent years, and all of them have ultimately been defeated. The proposal in S.1527 should meet the same fate.

- 9 -

7. Survivors and disability. We believe the 18-month service requirement in both S.1527 and the Ford/Oakar proposal are significant improvements over the current program. Overall, the Ford/Oakar approach for survivors and disability benefits will provide a system more closely aligned with current practice.

8. Thrift or capital accumulation plan (CAP). The proposed matching rate on employee contributions to the CAP in Option A of S.1527 is far in excess of typical private sector practice. We favor the matching rate in Option B for all employees, but will accept the compromise rate in the Ford/Oakar proposal.

That concludes my testimony. On behalf of the American Postal Workers Union, thank you for inviting me to testify. The APWU stands ready to work with the House committee to pass a law that both adequately compensates our new members and protects the rights of our other members under the current system.